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MAY - 8 2013
DIVISION OF AIR QUALITY
REGION 7 - SYRACUSE

Upstate New York Power Producers, Inc.
228 Cayuga Drive
Lansing, NY 14882
Tel: 607-533-7913
Fax: 607-533-8744

April 12, 2013

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APR 17 2013
Bureau of
Quality Assurance

U.S. Environmental Protection Agency
Region 2
Chief Air Compliance Branch
290 Broadway
New York, NY 10007-1866

Subject: EPA Mercury & Air Toxics Standards ("MATS")
Notice of Compliance Plans

Dear Madam or Sir :

Upstate New York Power Producers, Inc. ("USNYPP") respectfully submits the following notice of compliance plans pursuant to EPA's Office of Enforcement and Compliance Assurance Policy Memorandum dated December 16, 2011 to address operation of a unit, which could potentially operate in noncompliance of MATS, and to grant an additional year of operation to April 2017 for this unit beyond the current four years. Upstate New York Power Producers, Inc., a Delaware Limited Liability Company is the current and sole owner of the Somerset Operating Company, LLC ("SOC"), located in Barker, NY, and Cayuga Operating Company, LLC ("COC"), located in Lansing, NY. The Somerset and Cayuga units will be affected by the recent MATS rule, but based on current environmental controls currently installed; the Somerset and Cayuga 1 electric generating units will comply with the new standards by April 2015. Cayuga Unit 2 will require additional environmental controls to comply with the new standards and thus require an additional year. In addition, the Cayuga units will be required for future short term system reliability under a reliability agreement with the Load Serving Entity and have issued potential options for repowering the facility with natural gas to address the long term system reliability concerns.

On July 20, 2012, COC filed a notice with the New York State Public Service Commission ("Commission") of its intent to place the Cayuga Facility's generating units in a temporary protective lay-up by January 16, 2013. The load serving entity, New York State Electric and Gas ("NYSEG") responded to the notice by asserting that mothballing the Cayuga Facility could cause energy system reliability impacts. As directed by the Commission staff, COC and NYSEG filed a term sheet for a Reliability Support Services ("RSS") agreement for the Commission's consideration and approval. Among other items, the term sheet for the RSS agreement provided that COC would defer mothballing the facility until January 15, 2014.

On December 17, 2012, the Commission issued an order that approved the term sheet and directed COC and NYSEG to file a final executed copy of the RSS agreement. NYSEG will require extending the RSS beyond January 15, 2014 as a short term option, and will be issuing a solicitation in May 2013 to address future short term reliability concerns through early 2018.

On January 17, 2013, the Commission instituted Case 12-E-0577, proceeding to examine long term repowering alternatives to utility power plant reinforcements and directed National Grid and NYSEG to work with generation owners to evaluate repowering of two power plants in upstate New York. The Commission directed National Grid to evaluate repowering as an alternative outcome for the Dunkirk generating station and NYSEG to do the same for the Cayuga generating station. On February 19, 2013, NYSEG issued a Cayuga Repowering Solicitation ("Solicitation") to COC to present several options for repowering the Cayuga units. On March 26, 2013 COC's proposal detailed four options for repowering the Cayuga Power Plant. The range of proposals provide solutions that meet both regional peak demand needs during summer and winter months as well as the State's overall goals of higher-efficiency energy production.

Each option is described below:

1. Option 1: Repower the two existing coal-fired boilers with natural gas.

This option would involve adding natural gas burning equipment on the two existing coal boilers along with all the necessary controls and natural gas piping systems. The efficiency of the repowered boilers would improve while still being able to make the full 300 MW that the station currently provides. In addition, emissions of SO2 would be eliminated and CO2 and NOX would be significantly reduced.

2. Option 2: Construct three new gas-fired turbine generators that are peaking units.

This option would involve installing 3 new gas turbine generators that would be suited for providing electricity very quickly in times of peak demand. Each unit would be capable of 100MW, so the station would still be able to make the full 300 MW that it currently provides. In addition, emissions of SO2 would be eliminated and CO2 and NOX would be drastically reduced.

3. Option 3: Construct a new highly-efficient gas fired combined cycle turbine generating unit that uses the existing steam turbine generator in addition to repowering one of the existing coal-fired units with natural gas.

This option would involve installing a new gas turbine generator and combining it with a new heat recovery steam generator that would supply steam to the existing Unit 2 steam turbine. This option provides an innovative way to supply electricity in a highly-efficient manner while still utilizing existing equipment. The output of this "combined cycle gas turbine" (CCGT) would be around 250 MW. Along with repowering one of the existing boilers with natural gas

as described in Option 1, the total output of the station would be over 400MW. Emissions of SO2 would be eliminated and CO2 and NOX would be significantly reduced.

4. Option 4: Construct two new highly-efficient natural gas fired combined cycle turbine generating units.

This option would involve installing two new gas turbine generators and combining them with new HRSG's that would supply over 325 MW of electricity in a highly-efficient manner. Emissions of SO2 would be eliminated and CO2 and NOX would be drastically reduced with the installation of these state-of-the-art CCGTs.

In addition, in order to further the goal of encouraging the development of renewable energy set forth in the New York Energy Highway Blueprint, Cayuga proposed to construct a 2 MW array of solar photovoltaic panels to supplement the gas-fired capacity available from the re-configured plant site.

NYSEG will compare these repowering options to the transmission upgrade options and will submit their recommendation to the Commission by April 19, 2013, and would expect final approval of the repowering/system reliability option by the Commission later this year.

Based on the long term reliability concerns, the Cayuga facility compliance plan will request a fifth year extension to April 2017, but will be contingent upon the short term RSS agreement extension being granted and/or the long term approval of Cayuga repowering with natural gas. If Cayuga Unit 2 continues to operate as a coal fired unit long term, then only a fourth year to April 2016 would be requested for the installation of additional environmental controls.

Please provide a response regarding approval of the MATS compliance extension requests or if you require further documentation. If you have any questions regarding this compliance plan please feel free to contact me at (607) 533-7913 ext. 2222 or at john.marabella@usnypp.com . Thank you for your consideration in this matter.

Sincerely,

John C. Marabella
Director of Environmental and Regulatory Affairs
Upstate New York Power Producers, Inc.

Cc: Mr. Randall S. Orr, P.E. (NYSDEC-Division of Air Resources)

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